United Nations E/2003/17

Economic and Social Council

Distr.: General
13 May 2003

Original: English

Substantive session
30 June-25 July 2003
Item 10 of the provisional agenda*
Regional cooperation

Summary of the economic and social situation in Africa, 2002

Summary

The economic performance of African economies fell short of expectations in 2002, with economic growth slowing from an average pace of 4.3 per cent in 2001, to 3.1 per cent in 2002. The modest overall performance in 2002 reflects the impact of a weaker global economy and a slower-than-expected rebound in world trade. Africa's growth prospects were further weakened by the continued negative effects of low commodity prices in 2001, incidents of drought in various parts of southern and eastern Africa, and the intensification of political as well as armed conflicts in some parts of the region.

In the near term, growth prospects for African countries will depend mainly on the strength of the recovery in global economic activity, the outlook for commodity prices, progress in reducing political and armed conflicts, and the commitment of African leaders to macroeconomic stability and the principles of good governance.

* E/2003/100.

03-35722 (E) 110602

Introduction

1. The economic performance of African economies fell short of expectations in 2002 with economic growth slowing from an average pace of 4.3 per cent in 2001, to 3.1 per cent in 2002. The modest overall performance in 2002 reflects the impact of a weaker global economy and a slower-than-expected rebound in world trade. By early 2002, it seemed that a global economic recovery, led by the United States of America, was under way. By mid-2002, however, weaknesses in emerging markets as well as in mature equity markets indicated increased risk aversion among investors. This sentiment in turn raised questions about the strength of the recovery.

2. The turnaround in global activity gathered momentum in the first quarter of 2002 and led to optimistic forecasts about the prospects for future growth. Since then, concerns about the strength and durability of the recovery have been expressed. Nevertheless, events of the last quarter of 2002 suggest that the global recovery continued but was slower than earlier expected, owing to the diminished pace of economic recovery in the United States economy in the second quarter of 2002; declines in equity prices in major financial markets; rising risk premiums associated with geo-political uncertainty related to the volatile situation in the Middle East and its impact on oil prices; and the deteriorating economic condition in several Latin American countries.

3. In tandem with evidence of moderating United States economic growth, there are increasing concerns that the momentum of growth will ease in Japan — despite strong export performance in the first half of 2002. As the second largest economy in the world, the slow pace of economic recovery in Japan has adverse effects on global demand, the timing of the recovery in the global economy and, consequently, the outlook for prices of Africa's export commodities.

4. The euro area is Africa's most important market for non-oil exports. Yet economic performance remains weak. On an annual average basis, real gross domestic product (GDP) growth in the euro area was 0.8 per cent in 2002 and is expected to rise to 1.8 per cent in 2003. Within the euro area, growth in 2002 was uneven. The poor growth prospects for the euro area signals adverse consequences for short-term growth in Africa.

5. Economic developments in Asia affect Africa indirectly through their impact on global demand and supply of primary commodities. For example, because Asia accounts for about one third of global demand for copper, the slowdown in economic activity in the region due to the currency crisis of 1997-1998 reduced the growth rate of global copper consumption, contributed significantly to the fall in copper prices between the summer of 1997 and the end of 1998, and ultimately had adverse consequences for growth in Zambia — a major exporter of copper in Africa.

6. Africa's growth prospects were further weakened by the continued negative effects of low commodity prices in 2001, incidents of drought in various parts of southern and eastern Africa, and the intensification of political as well as armed conflicts in some parts of the region — notably, Côte d'Ivoire, Zimbabwe, Madagascar and the Central African Republic.

World trade — faint signs of recovery

7. African countries rely heavily on exports of natural resources and commodities and so the region's economic performance is strongly linked to developments in world trade. In the first half of 2002, world trade was slowly recovering from its worst growth performance in two decades in 2001 when as the World Trade Organization (WTO) reports, the value of world merchandise fell by 4 per cent and the value of world services exports declined by 1 per cent.

Commodity prices — surging upwards

8. Since the beginning of 2002, commodity prices have recovered remarkably, reflecting increasing evidence of a rebound in global economic activity. Crude oil prices have been rising since the beginning of the year despite weak world oil demand and ample supplies. The average spot price of three popular types of crude oil — Brent, Dubai and the West Texas Intermediate — increased from $19.30 per barrel in the fourth quarter of 2001 to $26.94 per barrel in the third quarter of 2002. That said, the annual average price of crude oil in September 2002 was $24.35, which is still below the annual average price of $28.23 for 2000. Factors responsible for the recent surge in oil prices include the intensification of the Israeli-Palestinian conflict in the second and third quarters of the year, and the anticipation of a United States-led military action against Iraq. All in all, the increase in crude oil prices is likely to have a negative effect on economic growth in sub-Saharan Africa this year because the region is a net importer of oil. It would, however, reduce external financing requirements and improve the fiscal situation in oil exporting countries such as Nigeria, Gabon, Angola and Cameroon.

9. Cocoa prices, which have generally increased since 2000, surged in 2002 because of declining supply and the fact that in July Armajaro — a United Kingdom trading company — bought vast quantities of cocoa at the London International Financial Futures and Options Exchange (LIFFE) in an apparent bid to push up prices. In addition, the recent outbreak of political and armed conflict in Côte d'Ivoire — the world's largest producer of cocoa, with approximately 40 per cent of global output — following a 19 September botched coup attempt generated concerns about the stability of global cocoa supply and resulted in cocoa prices hitting a 17-year high in October.

10. Prices of tea and coffee have generally been on the decline since 2000, due to oversupply and high stock levels. That said, the price of tea has picked up slightly since the beginning of 2002. Kenya, Ethiopia and Uganda are the three African countries that would be most affected by these price developments in the tea and coffee markets. Cotton prices have continued to slide — although a modest increase was observed in the third quarter of 2002 — reflecting the effects of higher production supported by favourable crop and weather conditions. The decline in cotton prices will tighten foreign exchange constraints in African exporting nations, notably Mali, Côte d'Ivoire, Chad, Cameroon, Burkina Faso, Benin, the United Republic of Tanzania, Zambia and Uganda.

11. With regard to metals, there were significant increases in the prices of gold in the year. Gold prices increased from $278.40 per troy oz. in the fourth quarter of 2001 to $314.20 per troy oz. in the third quarter of 2002, due in part in anticipation

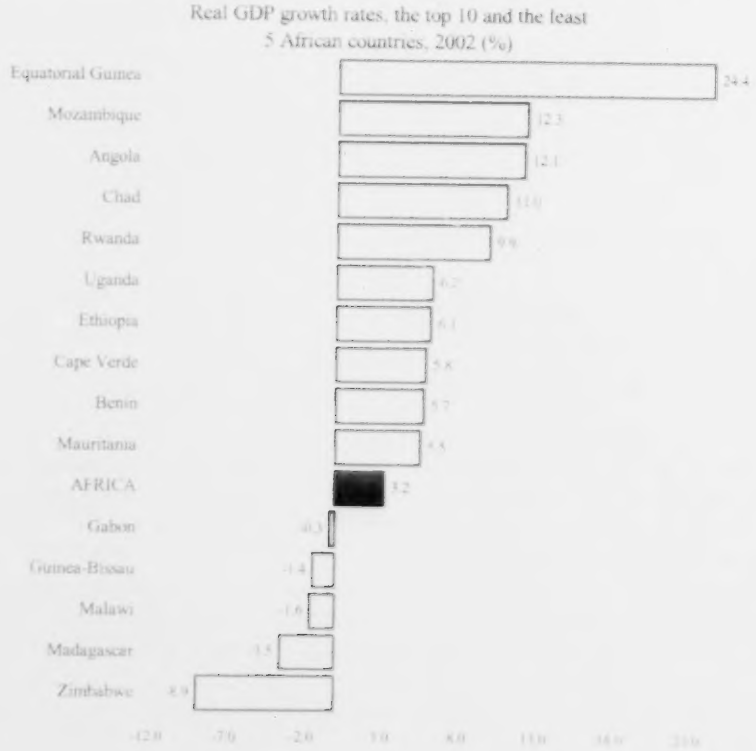
of a military strike against Iraq, concerns about the state of the global economy, recent declines in equity prices and the depreciation of the United States dollar, which increased the attractiveness of gold relative to dollar-denominated assets. African countries that would benefit from the surge in gold prices through increased export revenues include South Africa, Ghana, Zimbabwe and the United Republic of Tanzania. In the last few years, an increase in foreign investment in the mining sector has made mineral exports, especially gold, a very important source of foreign exchange earnings.

12. Relative to 2000, there were substantial declines in copper prices in 2001. A modest recovery was observed in the first and second quarters of 2002, reflecting largely the positive effects of the turnaround in global economic activity. Since July 2002, prices have been on a declining path. The recent declines in copper prices will have a negative effect on economic activity in Zambia, the main producer in the region, through a decrease in foreign exchange earnings.

Overall economic performance worsens

13. In 2002, out of the 53 countries in Africa, only 5 achieved the 7 per cent growth rate required to meet the Millennium Development Goals, 43 will have positive but below 7 per cent growth rate, and 5 registered negative growth rates. For the region as a whole, real GDP is expected to grow on an annual average basis by 3.1% in 2002 compared to 4.3 per cent in 2001.

Figure: The best- and the worst-performing countries in Africa, 2002



Growth slows in regional powerhouses

14. The decrease in the regional growth rate relative to 2001 is due to slower growth in four of the five largest economies in the region: Algeria, Egypt, Nigeria and Morocco. In Algeria, the decline in growth from 5 per cent in 2001 to 2.7 per cent in 2002, despite an increase in oil prices, reflects the adverse effect of increasing political and religious tensions, flooding in the east, and loss of competitiveness in the industrial sector. In Egypt, the decline in growth rate from 3.3 per cent to 3.0 per cent is primarily due to higher domestic interest rates, sluggish private sector growth, increased regional insecurity, and a lack of political will by the Government to implement far-reaching economic and social reforms, such as privatization and trade liberalization. In Morocco, the decline from 6.5 per cent to 4.3 per cent is due to a weakness in domestic demand and expected reductions in tourism revenue. As for Nigeria, where growth is expected to decline from 4.0 per cent to 2.6 per cent, it is the combined effect of increasing political risk and deteriorating economic fundamentals emanating from poor fiscal behaviour.

15. Turning to South Africa, which accounts for about 35 per cent of GDP of the five largest economies in Africa, real GDP is estimated to grow by 3.0 per cent in 2002, up from 2.1 per cent in 2001. This weak performance despite recent increases in the prices of its export commodities, particularly gold, is due in part to sluggish growth in the euro area — a major trading partner, the appreciation of the rand against the dollar in the second and third quarters of the year, resulting in a reduction in the competitiveness of South African exports, and the fact that the South African Reserve Bank tightened monetary policy on a number of occasions in an attempt to reduce the inflationary pressures in the economy.

Southern African region grew faster

16. With the exception of southern Africa, growth is expected to decrease in all subregions of the continent in 2002 relative to 2001. In particular, growth is expected to decrease in North, East, West and Central Africa by 3.0, 0.4, 0.4, and 1.5 percentage points, respectively.

17. In North Africa, the decline is generally a reflection of the negative effects of heightened political tension in the Middle East on economic activity, as well as the effects of subdued growth in the euro area, a major trading partner.

18. In West Africa, it is due in part to an expected decrease in growth rate in Nigeria — the largest economy in the subregion — from 4 0 per cent in 2001 to 2.6 per cent in 2002. Expected reductions in the pace of economic activity in Benin, Guinea-Bissau, the Niger and Senegal also contributed to the modest growth rate projected for the subregion.

19. In East Africa, a 3.5 per cent decline in real GDP in Madagascar, coupled with modest declines in growth rates in Djibouti, Ethiopia, Kenya, Somalia and the United Republic of Tanzania, contributed to the slowdown in economic activity in the subregion.

20. The expected slowdown in economic activity in Central Africa is largely due to a reduction in growth in Equatorial Guinea — from 66.1 per cent to 24.4 per cent, the Republic of the Congo — from 2.9 per cent to 1.7 per cent, and to a lesser extent

Cameroon — from 5.2 per cent to 4.9 per cent. For the second year in a row, Equatorial Guinea is the fastest growing economy in Africa, thanks largely to increased investment in the oil sector due to recent oil and gas discoveries in the country.

21. In southern Africa, growth is expected to increase from 2.4 per cent in 2001 to 3.3 per cent in 2002, reflecting largely a relative improvement in growth performance in South Africa, Angola, Lesotho, and Namibia. The expected improvement in growth performance in Angola is due to the cessation of hostilities and the recent surge in oil prices.

Agriculture and food security

22. Growth in the agricultural sector continues to be constrained by low productivity, weak rural infrastructure, poor weather conditions, and inappropriate economic policies that discriminate against the rural sector — the so-called urban-bias phenomenon.

23. Since 2000, there has been a general deterioration in the performance of the agricultural sector, reflecting largely the effects of the slowdown in global economic activity and poor weather conditions. Estimates suggest that in sub-Saharan Africa (excluding South Africa), agricultural production grew by a meagre 0.8 per cent in 2001. Although this is an improvement relative to the 0.3 per cent decline in 2000, it is far below the sector's average growth rate of 3.9 per cent during the period 1992-1996.

24. In 2002, unfavourable weather conditions created severe problems in various parts of the continent with adverse consequences for agricultural output. In Kenya, about 30,000 people were affected by flooding due to heavy rains. Flooding in northern Senegal, in February 2002, killed 500,000 livestock, destroyed 20,000 homes, and damaged 2,500 hectares of crops. In Algeria, output is expected to fall by 3.2 per cent in 2002 partly because of flooding in the east in July/August. In other countries — Ethiopia, the Niger, Mauritania, Swaziland, Tunisia, Zambia, Malawi, Lesotho, Zimbabwe, Botswana and Namibia — drought and generally dry conditions affected agricultural production. For instance, agricultural output in Tunisia is expected to decline by 14 per cent in 2002 because of adverse weather conditions.

25. A number of countries in the region, mostly in east and southern Africa, are facing a food crisis, thereby increasing the likelihood of an outbreak of starvation and famine. Food insecurity — the lack of access by an individual or a group of individuals to enough food for an active, healthy life — is increasingly becoming a serious development challenge in the Sahel as well as in parts of east and southern Africa.

Savings and investment — still low

26. Historically, savings and investment ratios have been very low on the continent and this constitutes important constraints on development in Africa.

27. In 2000, the average savings and investment ratios for the region were 21.0 per cent and 21.8 per cent, respectively. Six African countries — Equatorial Guinea, the

Republic of the Congo, Algeria, Gabon, Mauritius and Angola — had savings and investment ratios above 25 per cent over the period 1998-2000, while 11 countries — Equatorial Guinea, Lesotho, Sao Tome and Principe, Eritrea, Seychelles, Gabon, Angola, the Republic of the Congo, Mozambique, Burkina Faso and Mauritius — had investment ratios above 25 per cent. Of the 42 countries considered, only Mauritius, Equatorial Guinea and the Republic of the Congo had high savings and investment ratios as well as high growth over the period. The other countries had either low savings and investment ratios or low growth during the period.

Fiscal policy — stronger fundamentals

28. Before the late 1990s, Governments of African States had a tendency towards excessive fiscal spending. Since then, there has been a growing recognition by domestic policy makers that fiscal discipline is a necessary condition for sustained growth and development, as evidenced by the increasing number of countries showing fiscal restraints and adopting sound macroeconomic policies.

29. Despite the recent improvements in the fiscal policy environment, in 2002 fiscal profligacy was a problem in some parts of the region, as evidenced by the number of countries expected to have fiscal deficits of more than 3 per cent of GDP. These include Angola, Ghana, Kenya, Malawi, Mauritius, Namibia, Nigeria, Algeria and Morocco.

30. In some countries — for example, Nigeria and Algeria — the increase in fiscal deficits was due to increased spending by the Government in an attempt to influence the voters and increase the likelihood of being re-elected. The 2002 amended Nigerian budget involves a 20 per cent increase in government spending. This event, which was influenced by the forthcoming elections in March 2003, is likely to increase the already high inflationary pressure in the economy and force the monetary authorities to tighten the stance of monetary policy in the second half of 2003, with adverse consequences for growth in the short term. In Angola, the increase in deficits is due to the need to finance reconstruction efforts after the devastating armed conflict between the Government and the União Nacional para a Independência Total de Angola (UNITA) rebels.

31. As in the past, countries in North Africa are expected to have lower ratios of fiscal deficit to GDP in 2002 than countries in sub-Saharan Africa. Within sub-Saharan Africa, countries in the CFA zone are expected to have lower ratios than non-CFA countries due in part to the restraints on fiscal behaviour imposed by the adoption of a single currency and monetary policy in the CFA zone. West African countries outside the CFA zone are expected to show more fiscal restraint if they follow through with their decision to form a second monetary zone in the subregion.

32. Fiscal policy was relatively tight in some countries—including Botswana, Senegal, the Sudan, Cameroon and Gabon — with the last two countries expected to have fiscal surpluses in 2002. Despite the improvements in these countries, more needs to be done in the region to tighten fiscal policy and check excessive government spending.

Monetary and exchange rate policy — relatively sound

33. In the last few years, the focus of monetary policy in parts of the region has generally been on the maintenance of price and exchange rate stability. Consequently, monetary policy has been relatively tight in the region and inflation has been brought down to single digits in a number of countries. More specifically, the number of countries in the region with double-digit inflation is expected to decrease from 30 in 1995 to 11 in 2002. In addition, 26 countries in the region will have positive but less than 5 per cent inflation rate in 2002.

34. In terms of inflation control, the worst performers in the region in 2002 are: the Democratic Republic of the Congo, with an expected inflation rate of 27.7 per cent; Angola, with an expected inflation rate of 108.5 per cent; and Zimbabwe, with an expected inflation rate of 137.2 per cent. The high inflation rate in Angola is due to the effect of armed conflicts between the Government and UNITA rebels, as well as poor fiscal management. In Zimbabwe, it is due largely to inappropriate economic policies and the impact of the ongoing domestic political crisis on domestic and imported food prices, which account for a substantial share of the consumer price index.

35. The adoption and implementation of a relatively sound monetary policy framework will allow 11 countries in the region — Burkina Faso, Cape Verde, the Central African Republic, Djibouti, Gabon, Kenya, Mali, Morocco, the Niger, Rwanda and Egypt — to have a less than 3 per cent inflation rate in 2002. Unlike the other countries in Africa, Ethiopia and Uganda are expected to have negative inflation rates in 2002. In Uganda, bountiful food-crop harvests this year led to a decline in food prices and, because the domestic consumer price index is heavily weighted towards food, resulted in a substantial decline in domestic prices. In Ethiopia, the decline in consumer prices is explained by a reduction in the price of food owing to weaknesses in agricultural demand and the resulting decline in rural incomes. The recent drought in the country arising from failed rains and harvest is expected to put upward pressure on grain prices and eliminate the current deflationary pressures stifling growth in the economy.

36. Between January and December 2002, six countries in the region had extremely high nominal exchange rate volatility, with standard deviations of more than 50. Exchange rate volatility can have adverse effects on foreign investment by increasing the degree of uncertainty associated with returns on capital. In African emerging markets, sharp and unanticipated currency fluctuations can deteriorate bank and corporate balance sheets, threaten the stability of the banking system, and reduce economic activity if domestic firms have their assets in local currency but liabilities are predominantly in foreign currencies — a currency mismatch. Furthermore, sharp depreciations of the domestic currency can depress economic activity by increasing the cost of imported intermediate inputs and putting upward pressure on domestic inflation.

External sector

Trade and the current account — deteriorating

37. In 2002, the region is estimated to have a 0.5 per cent deterioration in its terms of trade, which is 3.2 percentage points lower than the decline in the terms of trade

in 2001. The lower degree of terms of trade deterioration reflects largely the improvement in commodity prices in 2002. Looking at the index for sub-Saharan Africa alone, an improvement of 0.6 per cent is expected for the same period.

38. One of the current challenges to trade in Africa is how to increase access to developed country markets. Some progress has been made. At the Fourth WTO Ministerial Conference, held in Doha in 2001, WTO member States agreed to undertake negotiations aimed at improving market access for agricultural products exported by developing nations. Since African countries export mostly agricultural commodities, they are likely to benefit from these developments. Other measures, including the African Growth and Opportunity Act (AGOA) and the "Everything-but-Arms" initiative, have been taken by developed nations to improve market access for developing countries, and Africa in particular.

39. Turning to the current account, for the 28 African countries for which data are available, 8 — Côte d'Ivoire, Mauritius, Botswana, South Africa, Algeria, the Libyan Arab Jamahiriya, Namibia and Equatorial Guinea — are expected to have current-account surpluses in 2002, supported largely by an increase in export revenue. Eleven countries — Senegal, Chad, Burkina Faso, Gabon, Lesotho, Zambia, the United Republic of Tanzania, Uganda, Malawi, Zimbabwe and the Niger — are expected to have unsustainable current-account deficits of more than 5 per cent of GDP in 2002.

Intra-African trade still low

40. Recent empirical evidence shows that trade among sub-Saharan African countries (henceforth Africa-to-Africa trade) accounts for only 12 per cent of sub-Saharan Africa's total exports — up 8 per cent from 1989. Established regional economic groups have not had a significant impact on Africa-to-Africa trade. Africa-to-Africa exports are highly concentrated in a few countries. Five countries dominate Africa-to-Africa trade — Côte d'Ivoire, Nigeria, Kenya, Zimbabwe and Ghana. While only 5 countries accounted for 75 per cent of exports, 16 countries account for a similar share of imports.

Foreign direct investment — continues to decline

41. African countries have the highest rate of return on investment in the world — four times more than in the G-7 countries, twice more than in Asia, and two thirds more than in Latin America. Despite this fact, and improvements in the macroeconomic policy environment since the mid-1990s, the region has difficulty attracting enough foreign investment to fill the gap between domestic savings and investment financing requirements. This reflects the combined effects of political instability, poor infrastructure and institutions, weak governance, a high level of corruption, macroeconomic policy instability, and an increase in competition for foreign direct investments (FDIs) due to the globalization of financial markets.

42. In 2001, there was a decrease in FDI flows to all regions of the world except Africa — and the transition economies of Central and Eastern Europe — reflecting largely the fact that the global economic slowdown of the last few years had no significant negative contagion effect on Africa because of the low international financial link between countries in the region and the rest of the world.

43. In 2002, world FDI is estimated to drop by 27 per cent because of the lower-than-expected recovery in the global economy and the adverse effects of the corporate auditing and accounting scandals in some developed countries on investment behaviour. In Africa, FDI inflows are expected to decline by $6 billion this year, from a peak of $17 billion in 2001. This decline is attributable to the unusual increase in inflows to South Africa and Morocco last year, as well as the intensification of political and social conflicts in some African countries, which affected foreign investor sentiments in the region.

Official development assistance — new promises

44. Official development assistance (ODA) is an important source of external financing for African countries. It is less volatile than private capital flows and enables countries that have difficulties attracting private capital from the international financial markets to narrow external financing gaps.

45. However, the reliance by African countries on ODA flows is risky because these flows are increasingly volatile and are generally pro-cyclical rather than counter-cyclical — countries get more aid in good times and less in bad times. This implies that they cannot rely on ODA flows to cushion the effects of severe adverse economic shocks. Consequently, concerted efforts need to be made by African leaders to improve the business environment in the region, encourage and attract private capital flows, and in the long run reduce the dependence of the region on pro-cyclical aid flows.

46. That said, prospects for ODA flows to Africa are likely to improve in the short-to-medium term because of fresh commitments made this year by a number of developed countries to increase development assistance to the region.

Encouraging trends in poverty reduction

47. Poverty remains a daunting social and economic challenge in Africa, with close to half the population in Africa living below $1 a day. Yet, several African countries recorded successes in poverty reduction. The set of countries in the analysis is important because together they account for more than half the population of sub-Saharan Africa. A typical poverty profile indicates that the poor households are larger, tend to locate in the poorest regions, are less literate, and have lower nutrition levels and life expectancy than the average.

48. However, additional evidence on the dynamics of poverty shows that less than one quarter of the population in a range of African countries are always poor, with up to 60 per cent of the population moving into and out of poverty. This pattern confirms what data from other developing countries has shown — that transitory poverty is a common phenomenon, pointing to the importance of securing livelihoods as an anti-poverty strategy.

49. In 2002, countries in the region intensified their focus on reducing poverty as summarized in their Poverty Reduction Strategy Papers (PRSP) and other national development strategies. The number of African countries preparing either the interim PRSP or final PRSP during the period increased quite significantly. Nine countries finalized their PRSPs in 2002 against four in 2001.

50. Although it is too early in the process to determine whether or not the PRSP has been consequential for growth, the limited experience thus far confirms that growth is necessary but not sufficient for poverty reduction. In countries like Ghana, Nigeria, Zambia and Ethiopia, higher rates of economic growth in the 1990s were translated into poverty reduction. This was especially so for Uganda. The same is not true for others. In Kenya, Senegal and Mali growth has not translated into poverty reduction to the extent it has done in Uganda.

Poverty reduction — high on the agenda

51. The results of the qualitative survey on the Expanded Economic Policy Stance Index indicate that poverty reduction has become the central plank of policy in survey countries. The poverty reduction policy cluster ranks second, with an approval rating of 67 per cent from stakeholders on government policy in this area. Stakeholder ranking on government policy corroborates with the fact that as of the end of 2002, out of 29 African countries that adopted an interim or full PRSP, 24 are in the sample. Many of the latter countries are at the implementation phase of the PRSPs. The promotion of gender equality in access to education, health and employment is particularly highly rated, topping the ranking with an approval rating of 80 per cent. The correctness of the PRSPs as being broadly pro-poor and reflecting the key development problems of these countries also got a 68 per cent approval rating. A similar rate of approval is awarded to the record of Governments in enhancing pro-poor targeting.

52. Botswana, Tunisia, South Africa, Namibia and Mauritius emerge as the top five performers in the area of poverty reduction. The effort of the Governments of these countries in promoting women's access to education and health as well as gender equality in employment is highly rated. Comparable achievements are also recorded in pro-poor targeting and effectiveness of pro-poor policies (such as microfinance programmes, rural development programmes, urban housing programmes, and adult literacy programmes).

Health challenge: combating HIV/AIDS, malaria and tuberculosis*

53. The spread of AIDS and resurgence of malaria and tuberculosis are emerging as major causes of death and devastation in Africa. It is estimated that 81 per cent of the world's HIV/AIDS-related deaths and 90 per cent of the world's malaria deaths, and 23 per cent of the world's tuberculosis deaths occur in Africa.[1]

54. HIV/AIDS, malaria and tuberculosis undermine the productive capacity of countries, put pressure on health services and health budgets, increase social distress, and perpetuate poverty. At the macroeconomic level, it is estimated that HIV/AIDS reduces GDP growth in Africa by 0.5 to 2.6 per cent a year on average. Other estimates suggest that Africa's GDP would be as much as $100 billion greater had malaria been eliminated years ago. In addition, in countries with a high burden of tuberculosis, the loss of productivity due to the disease is estimated at 4 to 7 per cent of GDP annually.

* See report of the Economic Commission for Africa entitled "Leadership for Better Health: The Challenge of HIV/AIDS, Tuberculosis and Malaria" (to be issued).

55. HIV/AIDS has reached epidemic proportions in Africa. At the end of 2001, Africa remained the region most severely affected by HIV/AIDS, with an estimated 28.5 million people living with the disease on the continent, including an estimated 2.6 million children less than 15 years of age.[2] Africa is the only continent where HIV prevalence is higher for women than for men. Of 28.5 million African people living with HIV/AIDS, 15 million are women. More telling still, African women constitute 83 per cent of the world's women with HIV/AIDS. HIV/AIDS orphaned more than 10 million children in sub-Saharan Africa by the end of 2001. At the country level, the worst affected include Botswana, Lesotho, Swaziland, Malawi, Mozambique, Namibia, Zambia and Zimbabwe, but the epidemic is also escalating in Cameroon, the Central African Republic and Côte d'Ivoire. However, some African countries had achieved tremendous successes in combating the HIV/AIDS epidemic through a combination of successful interventions aimed at behaviour changes. Available data shows that prevalence rates among adults continued to decline in Uganda and Senegal.[2]

Medium-term prospects — mixed

56. In the near term, growth prospects for African countries will depend mainly on the strength of the recovery in global economic activity, the outlook for commodity prices, progress in reducing political and armed conflicts, and the commitment of African leaders to macroeconomic stability and the principles of good governance.

57. The United States-led military action in Iraq might push up oil prices and decrease global economic activity, thereby reducing the prospect for growth in the African region, which is a net importer of oil. However, if an attack on Iraq disrupts its oil exports, there is the possibility that Saudi Arabia and other OPEC members will increase oil production to offset the potential decrease in global oil output. In that case, the impact of the attack on oil prices would be insignificant.

Modest improvement in growth in 2003

58. All in all, a modest improvement in growth performance is projected for the African region in the near term. Growth is expected to increase from 3.1 per cent in 2002 to 4.2 per cent in 2003, driven mainly by recent economic and political events within and outside Africa that are expected to have positive effects on growth in the region. These include:

- An increase in the number of peace agreements and a reduction in armed conflicts in the region, as evidenced by: the ceasefire in Angola following the death of the UNITA rebel leader, Jonas Savimbi; the tentative peace in West Africa — Liberia and Sierra Leone; the cessation of hostilities in the Horn of Africa (Eritrea and Ethiopia accepted the decision of an International Jury on the land dispute between the two countries); the July 2002 signing of a peace agreement by the Democratic Republic of the Congo and Rwanda in Pretoria; and the recent resumption of peace talks in Nairobi between the rebel SPLA and the Sudanese Government. The cessation of hostilities in these countries is expected to result in a redirection of military spending towards economic and social projects that will reinvigorate growth.

- An increase in the number of African countries eligible for debt relief under the Highly Indebted Poor Countries (HIPC) initiative. This is expected to free up resources — for social expenditures directed at vulnerable groups in the countries concerned — and boost economic activity in the region.

- The bottoming out of the global slowdown suggests that an improvement in economic activity should be expected in most regions of the world in the second or third quarter of 2003 and this should spur economic activity in Africa through increased aid as well as trade and foreign investment. In the countries of the Organisation for Economic Cooperation and Development (OECD), growth is expected to increase from 1.5 per cent in 2002 to 2.2 per cent in 2003. In the United States it is expected to increase from 2.3 per cent to 2.6 per cent, and in the European Union it is expected to increase from 0.9 per cent to 1.9 per cent. Japan is expected to move from a negative growth rate of 0.7 per cent in 2002 to a positive growth rate of 0.8 per cent in 2003.

- The decision by six West African countries to form a monetary union in 2005 and the desire and attempts by Governments to meet the convergence criteria are likely to improve the macroeconomic policy environment in the subregion, thereby boosting future growth.

- The events of 11 September and the resulting international war against terrorism may turn out to have positive economic effects in Africa to the extent that: (a) it prevents, reduces, or puts a check on the activities of militant groups in unstable African countries; and (b) it creates an incentive for Western nations to be more involved in the economic and political development of African nations as a way to discourage them from providing safe-havens to terrorists. There are already indications that this is happening. For example, Africa featured prominently on the agenda of the last G-8 Summit in Kaminski, Canada, and since the incidents of 11 September, a number of advanced countries have made promises to financially support development efforts in Africa.

59. Regarding the subregions, the pace of economic activity is expected to improve next year in all of the five subregions. In the year 2003, growth is projected to be 4.9 per cent in North Africa, 4.4 per cent in East Africa, 4.3 per cent in Central Africa, 3.6 per cent in southern Africa and 3.3 per cent in West Africa. North Africa is projected to have the highest growth rate in the region, driven by strong growth in Algeria (5.9 per cent), the Sudan (5.7 per cent), Tunisia (5.5 per cent) and Egypt (4.6 per cent). East Africa is projected to have the second highest growth rate in the region, driven by strong growth in Rwanda (6.5 per cent), Uganda (6 per cent), Madagascar (5.5 per cent), the United Republic of Tanzania (5.2 per cent) and the Democratic Republic of the Congo (3.8 per cent).

60. All West African countries, except Côte d'Ivoire, Liberia, Guinea-Bissau and Sierra Leone, are projected to have positive 3.0 per cent or more than 3.0 per cent growth rate in 2003, underpinned in part by an expected improvement in the prices of key commodities exported by the subregion — notably gold, oil and cocoa. Guinea-Bissau and Liberia will grow by a meagre 1.5 per cent and 1.6 per cent, respectively. Economic activity is expected to pick up in Nigeria with growth rate projected to be 3.0 per cent in 2003 due to the improvement in economic activity.

61. In southern Africa, growth is expected to increase from 3.3 per cent in 2002 to 3.6 per cent in 2003, reflecting largely expected improvements in prices of key export commodities — gold, oil, diamond and copper. The expected improvement in growth for the subregion is modest because the spate of droughts that affected the subregion in 2002 is likely to have negative consequences for future agricultural output. Zimbabwe is the only country in the subregion that is expected to have a negative growth rate (-4.6 per cent), explained in part by the political and economic crisis in the country. With an expected growth rate of 10.2 per cent, Mozambique will be the fastest-growing economy in the subregion, thanks to sound macroeconomic policies and funds from HIPC debt relief. Because of the likelihood that gold and diamond prices will increase next year, growth is expected to increase in South Africa from 3.0 per cent in 2002 to 3.3 per cent in 2003.

62. With Equatorial Guinea continuing to have a very impressive growth rate of 21.7 per cent, and with relatively strong growth in Cameroon and Sao Tome and Principe in 2003, the Central African subregion is expected to have a slight boost in growth rate from 4.0 per cent in 2002 to 4.3 per cent in 2003.

Risks and uncertainties

63. As usual, there are some downside risks to the realization of the projected growth rate for Africa, namely:

- The deteriorating political and economic situation in Zimbabwe and Côte d'Ivoire, which may have negative contagious effects in the West and southern African subregions. In Zimbabwe, the crisis has resulted in high and growing inflation, a reduction in food production, and an increasing number of people face the risk of starvation and famine. So far, the conflict in Côte d'Ivoire has not had any major adverse effect in the subregion. However, if the conflict persists, it would disrupt cocoa supply to the world market as well as economic activities in the neighbouring States.

- Renewed incidents of flooding and drought in various parts of the continent, especially in the Horn of Africa and the southern African subregion, may affect agricultural production in 2003 — if weather conditions do not improve — and reduce the prospect for future growth. In Ethiopia, 15 million people are already facing the risk of starvation, because of failed rains and harvests, with dire consequences for health status, labour force participation, and near-term growth in the country.

- The decision by President Bush in May 2002 to introduce a six-year $51.7 billion farm law boosting crop and dairy subsidies by 67 per cent. There is the concern that the subsidy will lead to a decrease in prices of agricultural products, thereby making it difficult for small African countries to compete on the world market. It is true that AGOA grants some African countries increased access to United States markets for certain goods. However, given the size of the subsidy, its impact on world agricultural prices may offset any gains to Africa from AGOA. There are already signs that the new farm policy is affecting cotton prices and threatening the cotton sector in Mali and Benin — the major exporting countries in West Africa. If this trend continues, it will have adverse consequences for growth in the West African region.

- Inflationary pressures in two of the five big economies in Africa — South Africa and Nigeria, as well as in countries such as Angola, Zimbabwe, the Democratic Republic of the Congo and Malawi — which would reduce the ability of the monetary authorities to stimulate the economy, if needed. For monetary policy to be credible in South Africa, the monetary authorities will have to increase interest rates in the future in order to reduce inflationary pressures and increase the likelihood of meeting the inflation target range of 3 to 6 per cent next year. This possibility of future monetary contractions in South Africa, coupled with uncertainty and fears about the extent to which the current increase in the price of gold could be sustained, makes the forecast for the domestic economy fragile. Turning to Nigeria, inflation is on the increase and the monetary authorities may have to adopt a tight monetary policy — after the forthcoming March 2003 presidential elections — in order to curb it. In February, Nigeria withdrew from an IMF monitoring programme, thereby sending a negative signal to foreign investors about its commitment to economic reforms and macroeconomic stability. To the extent that this encourages capital flight, it will reduce the pace of economic activity in 2003.

- The high probability of occurrence of an El Niño phenomenon between now and the first half of 2003 — as suggested by the International Research Institute for Climate Prediction — and the associated deterioration of global weather conditions may affect commodity production in the region with potentially negative consequences for growth. That said, it should be noted that this negative effect might be offset by the fact that the expected decrease in commodity output could result in an increase in non-fuel commodity prices, thereby increasing foreign exchange earnings for a sizeable number of countries in the region.

64. In summary, the prospects for Africa in the medium term are mixed and will be influenced largely by: the strength of the recovery in global economic activity; developments in commodity markets; progress in reducing regional insecurity; the adoption of sound macroeconomic policies as well as the principles of good governance; and the ability and willingness of African leaders to intensify much-needed economic and social reforms.

Notes

[1] WHO/UNAIDS, Coordinates 2002, Report to the Board of the Global Fund to Fight AIDS, Tuberculosis and Malaria (Geneva, 2002).

[2] UNAIDS, "Report on the Global HIV/AIDS Epidemic 2002 (Geneva, 2002).